

**Senate File 40 - Introduced**

SENATE FILE 40

BY ZAUN

**A BILL FOR**

1 An Act providing an exemption from the computation of the  
2 individual income tax of certain amounts of retirement  
3 income and including retroactive applicability provisions.  
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 8.57E, subsection 2, Code 2019, is  
2 amended to read as follows:

3 2. Moneys in the taxpayer relief fund shall only be used  
4 pursuant to appropriations or transfers made by the general  
5 assembly for tax relief, ~~including but not limited to increases~~  
6 ~~in the general retirement income exclusion under section 422.7,~~  
7 ~~subsection 31,~~ or reductions in income tax rates.

8 Sec. 2. Section 422.5, subsection 3, paragraph a, Code 2019,  
9 is amended to read as follows:

10 a. The tax shall not be imposed on a resident or nonresident  
11 whose net income, as defined in [section 422.7](#), is thirteen  
12 thousand five hundred dollars or less in the case of married  
13 persons filing jointly or filing separately on a combined  
14 return, heads of household, and surviving spouses or nine  
15 thousand dollars or less in the case of all other persons;  
16 but in the event that the payment of tax under [this division](#)  
17 would reduce the net income to less than thirteen thousand five  
18 hundred dollars or nine thousand dollars as applicable, then  
19 the tax shall be reduced to that amount which would result  
20 in allowing the taxpayer to retain a net income of thirteen  
21 thousand five hundred dollars or nine thousand dollars as  
22 applicable. The preceding sentence does not apply to estates  
23 or trusts. For the purpose of [this subsection](#), the entire net  
24 income, including any part of the net income not allocated  
25 to Iowa, shall be taken into account. ~~For purposes of this~~  
26 ~~subsection, net income includes all amounts of pensions or~~  
27 ~~other retirement income, except for military retirement pay~~  
28 ~~excluded under [section 422.7, subsection 31A](#), paragraph "a",~~  
29 ~~or [section 422.7, subsection 31B](#), paragraph "a", received from~~  
30 ~~any source which is not taxable under [this division](#) as a result~~  
31 ~~of the government pension exclusions in [section 422.7](#), or any~~  
32 ~~other state law.~~ If the combined net income of a husband and  
33 wife exceeds thirteen thousand five hundred dollars, neither  
34 of them shall receive the benefit of [this subsection](#), and it  
35 is immaterial whether they file a joint return or separate

1 returns. However, if a husband and wife file separate returns  
2 and have a combined net income of thirteen thousand five  
3 hundred dollars or less, neither spouse shall receive the  
4 benefit of this paragraph, if one spouse has a net operating  
5 loss and elects to carry back or carry forward the loss as  
6 provided in [section 422.9, subsection 3](#). A person who is  
7 claimed as a dependent by another person as defined in section  
8 422.12 shall not receive the benefit of [this subsection](#) if  
9 the person claiming the dependent has net income exceeding  
10 thirteen thousand five hundred dollars or nine thousand dollars  
11 as applicable or the person claiming the dependent and the  
12 person's spouse have combined net income exceeding thirteen  
13 thousand five hundred dollars or nine thousand dollars as  
14 applicable.

15 Sec. 3. Section 422.5, subsection 3, Code 2019, is amended  
16 by adding the following new paragraph:

17 NEW PARAGRAPH. *c.* (1) For purposes of this subsection,  
18 net income includes all amounts of pensions or other retirement  
19 income, except for military retirement pay excluded under  
20 section 422.7, subsection 31A, paragraph "a", or section 422.7,  
21 subsection 31B, paragraph "a", and except for retirement income  
22 excluded under section 422.7, subsection 31C, received from any  
23 source which is not taxable under this division as a result  
24 of the government pension exclusions in section 422.7, or any  
25 other state law.

26 (2) This paragraph "c" is repealed January 1, 2023.

27 Sec. 4. Section 422.5, subsection 3B, paragraph a, Code  
28 2019, is amended to read as follows:

29 *a.* The tax shall not be imposed on a resident or nonresident  
30 who is at least sixty-five years old on December 31 of  
31 the tax year and whose net income, as defined in section  
32 422.7, is thirty-two thousand dollars or less in the case  
33 of married persons filing jointly or filing separately on a  
34 combined return, heads of household, and surviving spouses or  
35 twenty-four thousand dollars or less in the case of all other

1 persons; but in the event that the payment of tax under this  
 2 division would reduce the net income to less than thirty-two  
 3 thousand dollars or twenty-four thousand dollars as applicable,  
 4 then the tax shall be reduced to that amount which would result  
 5 in allowing the taxpayer to retain a net income of thirty-two  
 6 thousand dollars or twenty-four thousand dollars as applicable.  
 7 The preceding sentence does not apply to estates or trusts.  
 8 For the purpose of [this subsection](#), the entire net income,  
 9 including any part of the net income not allocated to Iowa,  
 10 shall be taken into account. ~~For purposes of [this subsection](#),~~  
 11 ~~net income includes all amounts of pensions or other retirement~~  
 12 ~~income, except for military retirement pay excluded under~~  
 13 ~~[section 422.7, subsection 31A](#), paragraph "a", or [section 422.7,](#)~~  
 14 ~~[subsection 31B](#), paragraph "a", received from any source which is~~  
 15 ~~not taxable under [this division](#) as a result of the government~~  
 16 ~~pension exclusions in [section 422.7](#), or any other state law.~~  
 17 If the combined net income of a husband and wife exceeds  
 18 thirty-two thousand dollars, neither of them shall receive the  
 19 benefit of [this subsection](#), and it is immaterial whether they  
 20 file a joint return or separate returns. However, if a husband  
 21 and wife file separate returns and have a combined net income  
 22 of thirty-two thousand dollars or less, neither spouse shall  
 23 receive the benefit of this paragraph, if one spouse has a net  
 24 operating loss and elects to carry back or carry forward the  
 25 loss as provided in [section 422.9, subsection 3](#). A person  
 26 who is claimed as a dependent by another person as defined in  
 27 [section 422.12](#) shall not receive the benefit of [this subsection](#)  
 28 if the person claiming the dependent has net income exceeding  
 29 thirty-two thousand dollars or twenty-four thousand dollars  
 30 as applicable or the person claiming the dependent and the  
 31 person's spouse have combined net income exceeding thirty-two  
 32 thousand dollars or twenty-four thousand dollars as applicable.  
 33     Sec. 5. [Section 422.5](#), subsection 3B, Code 2019, is amended  
 34 by adding the following new paragraph:  
 35     NEW PARAGRAPH. *d.* (1) For purposes of this subsection,

1 net income includes all amounts of pensions or other retirement  
2 income, except for military retirement pay excluded under  
3 section 422.7, subsection 31A, paragraph "a", or section 422.7,  
4 subsection 31B, paragraph "a", and except for retirement income  
5 excluded under section 422.7, subsection 31C, received from any  
6 source which is not taxable under this division as a result  
7 of the government pension exclusions in section 422.7, or any  
8 other state law.

9 (2) This paragraph "d" is repealed January 1, 2023.

10 Sec. 6. Section 422.7, subsection 31, Code 2019, is amended  
11 to read as follows:

12 31. a. For a person who is disabled, or is fifty-five  
13 years of age or older, or is the surviving spouse of an  
14 individual or a survivor having an insurable interest in an  
15 individual who would have qualified for the exemption under  
16 this subsection for the tax year, subtract, to the extent  
17 included, the total amount of a governmental or other pension  
18 or retirement pay, including, but not limited to, defined  
19 benefit or defined contribution plans, annuities, individual  
20 retirement accounts, plans maintained or contributed to by an  
21 employer, or maintained or contributed to by a self-employed  
22 person as an employer, and deferred compensation plans or any  
23 earnings attributable to the deferred compensation plans, up  
24 to a maximum of six thousand dollars for a person, other than a  
25 husband or wife, who files a separate state income tax return  
26 and up to a maximum of twelve thousand dollars for a husband  
27 and wife who file a joint state income tax return. However, a  
28 surviving spouse who is not disabled or fifty-five years of age  
29 or older can only exclude the amount of pension or retirement  
30 pay received as a result of the death of the other spouse. A  
31 husband and wife filing separate state income tax returns or  
32 separately on a combined state return are allowed a combined  
33 maximum exclusion under [this subsection](#) of up to twelve  
34 thousand dollars. The twelve thousand dollar exclusion shall  
35 be allocated to the husband or wife in the proportion that each

1 spouse's respective pension and retirement pay received bears  
2 to total combined pension and retirement pay received.

3 b. This subsection is repealed January 1, 2023.

4 Sec. 7. Section 422.7, subsection 31A, Code 2019, is amended  
5 by adding the following new paragraph:

6 NEW PARAGRAPH. c. This section is repealed January 1, 2023.

7 Sec. 8. Section 422.7, subsection 31B, Code 2019, is amended  
8 by adding the following new paragraph:

9 NEW PARAGRAPH. c. This subsection is repealed January 1,  
10 2023.

11 Sec. 9. Section 422.7, Code 2019, is amended by adding the  
12 following new subsection:

13 NEW SUBSECTION. 31C. a. (1) For tax years beginning  
14 in the 2019 calendar year, subtract, to the extent included,  
15 twenty percent of retirement income received by a taxpayer  
16 remaining after the subtractions in subsections 31, 31A, and  
17 31B.

18 (2) For tax years beginning in the 2020 calendar year,  
19 subtract, to the extent included, forty percent of retirement  
20 income received by a taxpayer remaining after the subtractions  
21 in subsections 31, 31A, and 31B.

22 (3) For tax years beginning in the 2021 calendar year,  
23 subtract, to the extent included, sixty percent of retirement  
24 income received by a taxpayer remaining after the subtractions  
25 in subsections 31, 31A, and 31B.

26 (4) For tax years beginning in the 2022 calendar year,  
27 subtract, to the extent included, eighty percent of retirement  
28 income received by a taxpayer remaining after the subtractions  
29 in subsections 31, 31A, and 31B.

30 (5) For tax years beginning on or after January 1, 2023,  
31 subtract, to the extent included, retirement income received  
32 by a taxpayer.

33 b. For purposes of this subsection, "*retirement income*"  
34 means a governmental or other pension or retirement pay,  
35 including but not limited to defined benefit or defined

1 contribution plans, annuities, individual retirement accounts,  
 2 plans maintained or contributed to by an employer, or  
 3 maintained or contributed to by a self-employed person as an  
 4 employer, and deferred compensation plans or any earnings  
 5 attributable to the deferred compensation plans. "*Retirement*  
 6 *income*" includes amounts received as survivor benefits by a  
 7 taxpayer from the federal government pursuant to 10 U.S.C  
 8 §1447, et seq.

9 Sec. 10. RETROACTIVE APPLICABILITY. This Act applies  
 10 retroactively to January 1, 2019, for tax years beginning on  
 11 or after that date.

#### 12 EXPLANATION

13 The inclusion of this explanation does not constitute agreement with  
 14 the explanation's substance by the members of the general assembly.

15 This bill relates to the exclusion of retirement income from  
 16 the computation of net income for purposes of the individual  
 17 income tax.

18 Under current law, a taxpayer may exclude all retirement  
 19 pay, including certain survivor benefits, received from the  
 20 federal government for military service performed in the armed  
 21 forces, the armed forces military reserve, or national guard.

22 In addition, a taxpayer who is disabled, who is at least 55  
 23 years of age, or who is the surviving spouse or other specified  
 24 survivor of that qualifying taxpayer, may exclude a maximum  
 25 of \$6,000 of other retirement income (\$12,000 for married  
 26 couples).

27 The bill strikes a provision permitting moneys in the  
 28 taxpayer relief fund to be used for increases in the general  
 29 retirement income exclusions in 422.7(31) because the bill  
 30 provides for a complete exclusion of such retirement income.

31 The bill phases in over a five-year period the complete  
 32 exclusion from the individual income tax of a taxpayer's  
 33 retirement income remaining after the two exclusions referenced  
 34 above. The percentage of this retirement income that is  
 35 excluded for tax years beginning in 2019, 2020, 2021, and

1 2022, is 20 percent, 40 percent, 60 percent, and 80 percent,  
2 respectively. For tax years beginning in 2023 or later, 100  
3 percent of a taxpayer's retirement income will be excluded from  
4 the individual income tax.

5 The bill also excludes this retirement income from the  
6 calculation of net income for purposes of determining whether  
7 or not a taxpayer's net income exceeds the amount at which the  
8 individual income tax will not be imposed pursuant to Code  
9 section 422.5(3) or Code section 422.5(3B), and for which an  
10 individual income tax return is not required to be filed, and  
11 for purposes of calculating the alternate tax in Code section  
12 422.5, and further provides that any retirement income excluded  
13 from the individual income tax will not be added back to these  
14 calculations for tax years beginning in 2023 or later.

15 The bill defines "retirement income" for purposes of the  
16 exclusion.

17 The bill applies retroactively to January 1, 2019, for tax  
18 years beginning on or after that date.